

CITY OF MEDICINE LODGE, KANSAS

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor
and City Council
Medicine Lodge, Kansas

We have audited the accompanying financial statements of the City of Medicine Lodge, Kansas, as of and for the year ended December 31, 2011, which collectively comprise the financial statements of the City's primary government, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note A to the financial statements, the City of Medicine Lodge, Kansas, has prepared these financial statements in conformity with the accounting practices prescribed or permitted by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

Further in our opinion, because of the omission of the discretely presented component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Medicine Lodge, Kansas as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City of Medicine Lodge, Kansas, as of December 31, 2011, and their respective cash receipts and expenditures, and budgetary results for the year then ended on the basis of accounting described in Note A.

Kennedy McKee & Company LLP

September 27, 2012

CITY OF MEDICINE LODGE, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Residual equity transfers</u>
Governmental type funds:		
General	\$ 18,109	\$ 17,114
Special revenue:		
Tourism	48,627	-
Library	3,057	-
Special highway	85,367	-
Vehicle inspections	9,577	(9,577)
Special parks and recreation	14,935	-
Municipal equipment reserve	291,141	-
Capital improvements reserve	657,760	-
Public building commission	224	-
Debt service:		
Bond and interest	182,907	-
Capital project:		
Sidewalk improvement	8,324	-
Proprietary type fund:		
Enterprise:		
Water utility	129,402	-
Sewer utility	140,763	-
Solid waste utility	143,532	-
Meter deposit	31,552	-
Waterworks depreciation and maintenance reserve	92,491	-
Sewer plan O-M-R	241,986	-
Total - excluding agency fund	<u>\$ 2,099,754</u>	<u>\$ 7,537</u>

Composition of cash balance:

Interest bearing checking
Savings accounts
Certificates of deposit

Total cash

Agency fund

Total cash - excluding agency fund

The accompanying notes are an integral
part of the financial statements.

<u>Cash receipts</u>	<u>Expenditures</u>	<u>Ending unencumbered cash balance</u>	<u>Add outstanding encumbrances and accounts payable</u>	<u>Ending cash balance</u>
\$ 1,670,182	\$ 1,390,491	\$ 314,914	\$ 44,580	\$ 359,494
16,254	19,253	45,628	-	45,628
103,580	104,443	2,194	3,333	5,527
50,786	23,603	112,550	-	112,550
-	-	-	-	-
2,659	3,500	14,094	-	14,094
5,000	18,418	277,723	16,649	294,372
106,025	200,200	563,585	11,226	574,811
109,968	109,982	210	-	210
-	81,430	101,477	-	101,477
680	(45)	9,049	-	9,049
736,485	559,342	306,545	33,558	340,103
404,967	433,692	112,038	7,307	119,345
281,055	260,584	164,003	5,640	169,643
6,309	378	37,483	-	37,483
25,000	-	117,491	-	117,491
-	128,841	113,145	-	113,145
<u>\$ 3,518,950</u>	<u>\$ 3,334,112</u>	<u>\$ 2,292,129</u>	<u>\$ 122,293</u>	<u>\$ 2,414,422</u>
				\$ 905,234
				267,210
				<u>1,245,000</u>
				2,417,444
				<u>(3,022)</u>
				<u>\$ 2,414,422</u>

CITY OF MEDICINE LODGE, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General	\$ 1,546,132	\$ -	\$ 1,546,132	\$ 1,390,491	\$ 155,641
Special revenue:					
Tourism	50,000	-	50,000	19,253	30,747
Library	100,437	-	100,437	104,443	(4,006)
Special highway	93,000	-	93,000	23,603	69,397
Vehicle inspections	4,780	-	4,780	-	4,780
Special parks and recreation	14,500	-	14,500	3,500	11,000
Debt service:					
Bond and interest	81,526	-	81,526	81,430	96
Enterprise:					
Water utility	598,075	-	598,075	559,342	38,733
Sewer utility	475,419	-	475,419	433,692	41,727
Solid waste utility	290,532	-	290,532	260,584	29,948
 Total	 <u>\$ 3,254,401</u>	 <u>\$ -</u>	 <u>\$ 3,254,401</u>	 <u>\$ 2,876,338</u>	 <u>\$ 378,063</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Taxes and shared revenue:				
Ad valorem property tax	\$ 560,562	\$ 576,046	\$ 559,408	\$ 16,638
Delinquent tax	3,978	4,385	5,000	(615)
Motor vehicle tax	94,567	98,247	94,555	3,692
Recreational vehicle tax	1,331	1,377	1,391	(14)
16/20M tax	-	4,058	3,709	349
Local alcoholic liquor tax	3,671	2,719	1,500	1,219
Sales and use tax	448,841	652,099	445,000	207,099
Licenses and permits	2,068	2,550	2,610	(60)
Franchise fees	126,240	144,926	129,000	15,926
Fines and forfeitures	11,778	18,456	12,000	6,456
Charges for services	21,552	15,928	14,500	1,428
Interest	29,293	28,181	90,000	(61,819)
Use of property	250	300	250	50
Miscellaneous	24,574	59,985	11,000	48,985
Operating transfers in	20,020	60,925	91,780	(30,855)
Total cash receipts	<u>1,348,725</u>	<u>1,670,182</u>	<u>\$ 1,461,703</u>	<u>\$ 208,479</u>
Expenditures:				
Administration	269,142	224,750	\$ 253,762	\$ 29,012
Police department	372,351	338,508	399,266	60,758
Fire department	11,325	14,462	16,500	2,038
Streets and alleys department	329,963	202,661	235,986	33,325
Park department	53,417	77,002	95,996	18,994
Swimming pool	74,128	68,316	205,314	136,998
Street lights	44,270	49,436	35,000	(14,436)
Airport	-	-	7,850	7,850
Municipal court	11,739	13,755	12,186	(1,569)
Carry Nation Memorial	4,797	11,518	10,980	(538)
Emergency preparedness	1,493	387	6,000	5,613
Code enforcement	44,412	41,857	61,725	19,868
Community building	4,862	-	3,250	3,250
Industrial development	379	-	6,000	6,000
Recycling program	11,387	2,583	11,317	8,734
Operating transfers:				
Transfer to public building commision	-	109,968	-	(109,968)
Transfer to payroll clearing	21,459	-	-	-
Hospital appropriation	196,670	217,315	175,000	(42,315)
Neighborhood revitalization rebate	7,484	17,973	-	(17,973)
Miscellaneous	-	-	10,000	10,000
Total expenditures	<u>1,459,278</u>	<u>1,390,491</u>	<u>\$ 1,546,132</u>	<u>\$ 155,641</u>
Receipts over (under) expenditures	(110,553)	279,691		
Unencumbered cash, beginning of year	128,662	18,109	\$ 84,429	\$ (66,320)
Residual equity transfers	-	17,114		
Unencumbered cash, end of year	<u>\$ 18,109</u>	<u>\$ 314,914</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

TOURISM FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Taxes and shared revenue				
Guest tax	\$ 6,564	\$ 16,254	\$ 10,000	\$ 6,254
Expenditures:				
Contractual services	400	5,528	\$ 25,000	\$ 19,472
Commodities	-	75	15,000	14,925
Capital outlay	-	-	10,000	10,000
Reimbursed expenditures	240	-	-	-
Donations	10,650	13,650	-	(13,650)
Total expenditures	11,290	19,253	\$ 50,000	\$ 30,747
Receipts over (under) expenditures	(4,726)	(2,999)		
Unencumbered cash, beginning of year	53,353	48,627	\$ 48,853	\$ (226)
Unencumbered cash, end of year	\$ 48,627	\$ 45,628	\$ 8,853	\$ 36,775

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

LIBRARY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
Taxes and shared revenue:				
Ad valorem property tax	\$ 79,760	\$ 88,149	\$ 85,602	\$ 2,547
Delinquent tax	712	641	200	441
Motor vehicle tax	13,631	14,009	13,478	531
Recreational vehicle tax	192	196	198	(2)
16/20M vehicle tax	-	585	529	56
Total cash receipts	<u>94,295</u>	<u>103,580</u>	<u>\$ 100,007</u>	<u>\$ 3,573</u>
Expenditures:				
Contractual services	-	855	\$ -	\$ (855)
Library appropriation	90,171	100,830	100,437	(393)
Neighborhood revitalization	<u>1,067</u>	<u>2,758</u>	<u>-</u>	<u>(2,758)</u>
Total expenditures	<u>91,238</u>	<u>104,443</u>	<u>\$ 100,437</u>	<u>\$ (4,006)</u>
Receipts over (under) expenditures	3,057	(863)		
Unencumbered cash, beginning of year	<u>-</u>	<u>3,057</u>	<u>\$ 430</u>	<u>\$ 2,627</u>
Unencumbered cash, end of year	<u>\$ 3,057</u>	<u>\$ 2,194</u>		

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part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

SPECIAL HIGHWAY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
State of Kansas gas tax	\$ 51,021	\$ 50,786	\$ 53,300	\$ (2,514)
Expenditures:				
Contractual services	13,956	-	\$ -	\$ -
Commodities	11,154	23,603	93,000	69,397
Capital outlay	2,204	-	-	-
Total expenditures	27,314	23,603	\$ 93,000	\$ 69,397
Receipts over (under) expenditures	23,707	27,183		
Unencumbered cash, beginning of year	61,660	85,367	\$ 39,943	\$ 45,424
Unencumbered cash, end of year	\$ 85,367	\$ 112,550	\$ 243	\$ 112,307

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

VEHICLE INSPECTIONS FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Charges for services	\$ 2,080	\$ -	\$ -	\$ -
Expenditures:				
Contractual services	259	-	\$ -	\$ -
Commodities	347	-	-	-
Capital outlay	977	-	-	-
Transfer to general	-	-	4,780	4,780
Total expenditures	1,583	-	\$ 4,780	\$ 4,780
Receipts over (under) expenditures	497	-		
Unencumbered cash, beginning of year	9,080	9,577	\$ 4,780	\$ 4,797
Residual equity transfer	-	(9,577)		
Unencumbered cash, end of year	\$ 9,577	\$ -		

The accompanying notes are an integral part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

SPECIAL PARKS AND RECREATION FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Local alcoholic liquor tax	\$ 3,071	\$ 2,659	<u>\$ 3,500</u>	<u>\$ (841)</u>
Expenditures:				
Capital outlay	<u>-</u>	<u>3,500</u>	<u>\$ 14,500</u>	<u>\$ 11,000</u>
Receipts over (under) expenditures	3,071	(841)		
Unencumbered cash, beginning of year	<u>11,864</u>	<u>14,935</u>	<u>\$ 11,864</u>	<u>\$ 3,071</u>
Unencumbered cash, end of year	<u>\$ 14,935</u>	<u>\$ 14,094</u>	<u>\$ 864</u>	<u>\$ 13,230</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

BOND AND INTEREST FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Special assessments	\$ 1,809	\$ -	\$ -	\$ -
Expenditures:				
Debt service:				
Principal	35,000	53,877	\$ 53,873	\$ (4)
Interest	14,993	27,553	27,553	-
Commission and fees	-	-	100	100
Total expenditures	49,993	81,430	\$ 81,526	\$ 96
Receipts over (under) expenditures	(48,184)	(81,430)		
Unencumbered cash, beginning of year	231,091	182,907	\$ 157,448	\$ 25,459
Unencumbered cash, end of year	\$ 182,907	\$ 101,477	\$ 75,922	\$ 25,555

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

WATER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Charges for services	\$ 447,031	\$ 733,893	\$ 594,100	\$ 139,793
Miscellaneous	329	2,592	5,000	(2,408)
Total cash receipts	<u>447,360</u>	<u>736,485</u>	<u>\$ 599,100</u>	<u>\$ 137,385</u>
Expenditures:				
Personnel	142,381	159,626	\$ 511,075	\$ 351,449
Contractual services	147,547	198,467	-	(198,467)
Commodities	77,151	32,155	-	(32,155)
Capital outlay	45,547	25,105	-	(25,105)
Reimbursed expenditures	(2,908)	(7,068)	-	7,068
Miscellaneous	-	171	-	(171)
Debt service:				
Principal	-	37,546	-	(37,546)
Interest	-	27,415	-	(27,415)
Transfers:				
General	20,000	60,925	62,000	1,075
Municipal equipment reserve	50,000	-	-	-
Waterworks depreciation and maintenance reserve	<u>65,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total expenditures	<u>544,718</u>	<u>559,342</u>	<u>\$ 598,075</u>	<u>\$ 38,733</u>
Receipts over (under) expenditures	(97,358)	177,143		
Unencumbered cash, beginning of year	<u>226,760</u>	<u>129,402</u>	<u>\$ 25,291</u>	<u>\$ 104,111</u>
Unencumbered cash, end of year	<u>\$ 129,402</u>	<u>\$ 306,545</u>	<u>\$ 26,316</u>	<u>\$ 280,229</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

SEWER UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Charges for services	\$ 370,350	\$ 320,788	\$ 325,000	\$ (4,212)
Miscellaneous	473	4,179	500	3,679
Transfer from sewer plant O-M-R	-	80,000	80,000	-
Total cash receipts	<u>370,823</u>	<u>404,967</u>	<u>\$ 405,500</u>	<u>\$ (533)</u>
Expenditures:				
Personnel	91,733	94,820	\$ 99,689	\$ 4,869
Contractual services	88,551	121,041	85,260	(35,781)
Commodities	20,425	10,934	48,500	37,566
Capital outlay	12,385	18,063	212,250	194,187
Reimbursed expenses	(137)	(3,416)	(280)	3,136
Debt service:				
Principal	-	128,704	-	(128,704)
Interest	-	63,546	-	(63,546)
Transfers:				
Sewer plant O-M-R	200,000	-	-	-
Municipal equipment reserve	<u>3,000</u>	<u>-</u>	<u>30,000</u>	<u>30,000</u>
Total expenditures	<u>415,957</u>	<u>433,692</u>	<u>\$ 475,419</u>	<u>\$ 41,727</u>
Receipts over (under) expenditures	(45,134)	(28,725)		
Unencumbered cash, beginning of year	<u>185,897</u>	<u>140,763</u>	<u>\$ 140,763</u>	<u>\$ -</u>
Unencumbered cash, end of year	<u>\$ 140,763</u>	<u>\$ 112,038</u>	<u>\$ 70,844</u>	<u>\$ 41,194</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

SOLID WASTE UTILITY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Charges for services	\$ 233,325	\$ 280,868	\$ 236,500	\$ 44,368
Interest	70	-	-	-
Miscellaneous	922	187	500	(313)
Total cash receipts	<u>234,317</u>	<u>281,055</u>	<u>\$ 237,000</u>	<u>\$ 44,055</u>
Expenditures:				
Solid waste:				
Personnel	139,876	139,082	\$ 285,532	\$ 146,450
Contractual services	75,501	90,132	-	(90,132)
Comodities	13,336	13,581	-	(13,581)
Capital outlay	1,842	4,172	-	(4,172)
Reimbursed expenditures	(85)	(925)	-	925
Recycling:				
Personnel	-	7,518	-	(7,518)
Contractual services	-	1,346	-	(1,346)
Comodities	-	224	-	(224)
Capital outlay	-	454	-	(454)
Transfers:				
Municipal equipment reserve	20,000	5,000	5,000	-
Total expenditures	<u>250,470</u>	<u>260,584</u>	<u>\$ 290,532</u>	<u>\$ 29,948</u>
Receipts over (under) expenditures	(16,153)	20,471		
Unencumbered cash, beginning of year	159,685	143,532	\$ 84,364	\$ 59,168
Unencumbered cash, end of year	<u>\$ 143,532</u>	<u>\$ 164,003</u>	<u>\$ 30,832</u>	<u>\$ 133,171</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ALL NON-BUDGETED FUNDS

Year ended December 31, 2011

	Special revenue funds		
	Municipal equipment reserve	Capital improvements reserve	Public building commission
Cash receipts:			
Grants	\$ -	\$ 106,025	\$ -
Charges for services	-	-	-
Interest	-	-	-
Transfer from:			
General	-	-	109,968
Water utility	-	-	-
Solid waste utility	5,000	-	-
Other	-	-	-
	<u>5,000</u>	<u>106,025</u>	<u>109,968</u>
Total cash receipts			
	<u>5,000</u>	<u>106,025</u>	<u>109,968</u>
Expenditures:			
Contractual services	1,659	173,931	-
Capital outlay	16,759	26,269	-
Miscellaneous	-	-	15
Reimbursed expenditures	-	-	-
Debt service:			
Principal	-	-	55,000
Interest	-	-	54,967
Transfer to:			
Sewer utility	-	-	-
	<u>18,418</u>	<u>200,200</u>	<u>109,982</u>
Total expenditures			
	<u>18,418</u>	<u>200,200</u>	<u>109,982</u>
Receipts over (under) expenditures	(13,418)	(94,175)	(14)
Unencumbered cash, beginning of year	<u>291,141</u>	<u>657,760</u>	<u>224</u>
Unencumbered cash, end of year	<u>\$ 277,723</u>	<u>\$ 563,585</u>	<u>\$ 210</u>

The accompanying notes are an integral
part of the financial statements.

Capital project fund	Enterprise funds			Total
		Waterworks depreciation and maintenance reserve	Sewer plant O-M-R	
Sidewalk improvement	Meter deposit			
\$ -	\$ -	\$ -	\$ -	\$ 106,025
-	6,209	-	-	6,209
-	100	-	-	100
-	-	-	-	109,968
-	-	25,000	-	25,000
-	-	-	-	5,000
680	-	-	-	680
680	6,309	25,000	-	252,982
-	-	-	48,841	224,431
-	-	-	-	43,028
-	378	-	-	393
(45)	-	-	-	(45)
-	-	-	-	55,000
-	-	-	-	54,967
-	-	-	80,000	80,000
(45)	378	-	128,841	457,774
725	5,931	25,000	(128,841)	(204,792)
8,324	31,552	92,491	241,986	1,323,478
<u>\$ 9,049</u>	<u>\$ 37,483</u>	<u>\$ 117,491</u>	<u>\$ 113,145</u>	<u>\$ 1,118,686</u>

CITY OF MEDICINE LODGE, KANSAS

SUMMARY OF CASH RECEIPTS AND CASH DISBURSEMENTS - AGENCY FUNDS

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning cash</u>	<u>Cash receipts</u>	<u>Cash disbursements</u>	<u>Ending cash balance</u>
Clearing fund	<u>\$ 7,537</u>	<u>\$ 263,321</u>	<u>\$ 267,836</u>	<u>\$ 3,022</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF MEDICINE LODGE, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist in understanding the City's financial statements, which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are the representation of the City's management, which is responsible for their integrity and objectivity.

1. Financial reporting entity

The City of Medicine Lodge is a municipal corporation governed by an elected mayor and five-member council. The scope of the entity for financial reporting purposes is defined as those funds for which the governing body of the City has financial accountability. Financial accountability includes budgetary authority and fiscal management responsibility. Budgetary authority is defined as authority for final approval of budgetary appropriations and revisions. Fiscal management responsibility is control of the collection and disbursement of funds. These financial statements include all funds included in the City's legally adopted budget. These financial statements present the City of Medicine Lodge and its blended component unit, but do not include its discretely presented component unit.

Component units

Public Building Commission (blended component unit): The Commission was authorized by City Ordinance No. 818, pursuant to K.S.A 12-1757 *et. seq.*, and all amendments thereto, and as amended, supplemented and limited by the City of Medicine Lodge, Kansas Charter Ordinance No. 17 establishing the composition thereof and purposes for which established. For financial reporting, the financial activities of the Public Building Commission are accounted for within a non-budgeted special revenue fund.

Lincoln Library (discretely presented component unit): The members of the governing board of the Library are approved by the City Council. The Library is fiscally dependent on the City because the budget is approved by the City Council. In addition, the Library is prohibited from issuing bonded debt without the approval of the City Council.

Complete financial statements of the Lincoln Library can be obtained from its administrative office located at:

Lincoln Library
201 N. Main Street
Medicine Lodge, KS 67104

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Fund accounting

The accounts of the City are organized on the basis of funds. In governmental accounting, a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity. City resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The following types of funds comprise the financial activities of the City for the year of 2011:

Governmental type funds

General fund - to account for all financial transactions not properly accounted for in another fund. It receives a greater variety and number of taxes and other general revenue than any other fund and finances a wider range of activities than any other fund.

Special revenue funds - to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes.

Debt service fund - to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, including special assessments which are general obligations of the City.

Capital project funds – to account for major capital expenditures not financed by enterprise funds.

Proprietary type funds

Enterprise funds - to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary type funds

Agency funds – to account for assets held by the City as an agent for individuals, other units of government and/or other funds.

3. Statutory basis of accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure is charged in the fund from which the transfer is made.

The City has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Departure from generally accepted accounting principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance is not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences is not presented in the financial statements.

5. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in the official newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
- c. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The budget for the sewer utility fund was amended to increase the original budget from \$401,379 to \$475,419.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Budgetary information (continued)

A legal operating budget is not required for utility reserve funds, trust and agency funds, capital project funds or the municipal equipment reserve, capital improvements reserve, and public building commission special revenue funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

6. Cash and investments

To facilitate better management of the City's cash resources, excess cash is combined in pooled operating accounts. Each fund's portion of total cash is based on its equity in the pooled cash amount. Cash in excess of current operating needs is invested on a pooled investment basis and earnings thereon are distributed to the general fund and other appropriate funds. Investments consist of certificates of deposit reported at cost, which approximates fair value.

7. Property taxes

The determination of assessed valuation and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. Taxes are levied by November and a lien for all taxes shall attach on that same date until the taxes are paid. One-half of the property taxes are due December 20 and distributed to the City by January 20, and the second half is due May 10 and distributed to the City by June 5. The City draws available funds from the County Treasurer's office at designated times throughout the year.

8. Pension plan

Substantially all full-time employees of the City are members of the State of Kansas Public Employees' Retirement System (KPERs) which is a cost-sharing multiple-employer state-wide pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary.

9. Other post employment benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

10. Section 457 deferred compensation plan

The City offers a Section 457 deferred compensation plan to all employees on a voluntary basis. The City does not contribute to the plan and the plan is administered by Security Benefits.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Section 125 plan

The City does offer a Section 125 plan through Aflac and Aetna for all eligible employees. It is used for accident and cancer insurance. The City withholds the amounts from the employee's paychecks and remits the withholding to the plan administrator.

12. Compensated absences

The City's policy allows vacation time to accumulate to 160 hours. However, the number of hours of unused vacation that can be carried over without written authorization from the City Council varies depending on how many continuous years of employment the employee has. The maximum number of hours eligible to be carried over is as follows: 40 hours, 0-5 years; 80 hours, 6-10 years; 120 hours, 11-15 years; 140 hours, 16-20 years and 160 hours, over 20 years. Sick leave may be accumulated up to 720 hours, but unused sick leave is not paid upon termination or resignation. The City does not accrue amounts for compensated absences, as the amounts are expensed as paid.

13. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical needs of employees. The City participates in a public entity risk pool to cover worker's compensation claims. The City purchases commercial insurance to cover health, property, and liability claims. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

B. COMPLIANCE WITH KANSAS LAW

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration to the Director of Accounts and Reports, Kansas Department of Administration, and interpretation by legal representatives of the City.

K.S.A. 10-130 requires that municipalities remit payments for any bonds or interest to the state fiscal agent at least twenty days before the day of maturity. One payment on the revenue bonds was not made in accordance with this statute.

The budget law provided by K.S.A. 79-2935 prohibits the creation of indebtedness in any fund in excess of the amount allowed by budget. At year-end, the Library fund had expenditures in excess of budget in the amount of \$4,006.

C. DEPOSITS AND INVESTMENTS

Policies. The City has no formal deposit and investment policies; however it does follow state statutes. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverages. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2010.

At year-end the carrying amount of the City's deposits, including certificates of deposit, was \$2,417,444. The bank balance was \$2,453,265. The bank balance was held by two banks resulting in concentration of credit risk. Of the bank balance, \$250,210 was covered by federal depository insurance, and \$2,203,055 was collateralized with securities held by the pledging financial institution's agents in the City's name.

D. LONG-TERM DEBT

Changes in long-term liabilities for the entity for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ net change</u>	<u>Balance end of year</u>	<u>Interest paid</u>
General obligation bonds:					
Highway improvements					
Issued June 1, 2002					
In the amount of \$500,000					
At interest rates of 4.00% to 5.50%					
Maturing September 1, 2017	<u>\$ 295,000</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 260,000</u>	<u>\$ 13,540</u>
Revenue bonds:					
Swimming pool improvements					
Issued March 15, 2006					
In the amount of \$1,450,000					
At interest rates of 3.50% to 4.50%					
Maturing September 1, 2026	<u>1,290,000</u>	<u>-</u>	<u>55,000</u>	<u>1,235,000</u>	<u>54,968</u>
Revolving loans:					
Water Improvements					
Issued January 31, 2002					
In the amount of \$587,533					
At interest rate of 4.04%					
Maturing August 1, 2023	410,750	-	25,840	384,910	16,336
Sewer plant					
Issued March 1, 2003					
In the amount of \$2,946,766					
At interest rate of 2.94%					
Maturing September 1, 2024	2,193,369	-	128,704	2,064,665	63,546
Water line upgrades					
Issued February 18, 2010					
In the amount of \$326,090					
At interest rate of 3.49%					
Maturing February 1, 2030	<u>320,344</u>	<u>-</u>	<u>11,706</u>	<u>308,638</u>	<u>11,079</u>
Subtotal revolving loans	<u>2,924,463</u>	<u>-</u>	<u>166,250</u>	<u>2,758,213</u>	<u>90,961</u>
Capital leases:					
Fire truck					
Issued April 16, 2007					
In the amount of \$344,832					
At interest rate of 5.00%					
Maturing March 31, 2022	<u>284,940</u>	<u>-</u>	<u>18,873</u>	<u>266,067</u>	<u>14,013</u>
Total long-term debt	<u>\$4,794,403</u>	<u>\$ -</u>	<u>\$ 275,123</u>	<u>\$4,519,280</u>	<u>\$ 173,482</u>

D. LONG-TERM DEBT (CONTINUED)

Current maturities of general obligation bonds and interest for the next five years and thereafter through maturity are as follows:

	Principal due	Interest due	Total due
2012	\$ 40,000	\$ 12,053	\$ 52,053
2013	40,000	10,292	50,292
2014	40,000	8,492	48,492
2015	45,000	6,653	51,653
2016	45,000	4,538	49,538
2017	50,000	2,400	52,400
Total	<u>\$ 260,000</u>	<u>\$ 44,428</u>	<u>\$ 304,428</u>

Current maturities of revenue bonds and interest for the next five years and in five year increments through maturity are as follows:

	Principal due	Interest due	Total due
2012	\$ 55,000	\$ 52,933	\$ 107,933
2013	60,000	50,842	110,842
2014	65,000	48,502	113,502
2015	65,000	45,903	110,903
2016	70,000	43,270	113,270
2017-2021	400,000	170,125	570,125
2022-2026	520,000	72,000	592,000
Total	<u>\$ 1,235,000</u>	<u>\$ 483,575</u>	<u>\$ 1,718,575</u>

Current maturities of revolving loans and interest for the next five years and in five year increments through maturity are as follows:

	Principal due	Interest due	Total due
2012	\$ 171,529	\$ 85,682	\$ 257,211
2013	176,978	80,233	257,211
2014	182,602	74,609	257,211
2015	188,409	68,802	257,211
2016	194,404	62,807	257,211
2017-2021	1,068,953	217,102	1,286,055
2022-2026	700,878	53,061	753,939
2027-2030	74,460	5,287	79,747
Total	<u>\$ 2,758,213</u>	<u>\$ 647,583</u>	<u>\$ 3,405,796</u>

D. LONG-TERM DEBT (CONTINUED)

Current maturities of capital leases and interest for the next five years and in five year increments through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2012	\$ 19,791	\$ 13,095	\$ 32,886
2013	20,831	12,055	32,886
2014	21,884	11,002	32,886
2015	22,992	9,894	32,886
2016	24,131	8,755	32,886
2017-2021	140,395	24,034	164,429
2022	<u>16,043</u>	<u>400</u>	<u>16,443</u>
Total	<u>\$ 266,067</u>	<u>\$ 79,235</u>	<u>\$ 345,302</u>

E. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, purchase and construct assets, and service debt. The governmental funds financial statements generally reflect such transactions as transfers.

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory authority</u>	<u>Amount</u>
Water utility	Waterworks depreciation and maintenance	K.S.A. 12-825d	\$ 25,000
Water utility	General	K.S.A. 12-1,117	60,925
Sewer plant O-M-R	Sewer utility	K.S.A. 12-825d	80,000
Solid waste utility	Municipal equipment	K.S.A. 12-1,117	5,000
General	Public building commission	Resolution	<u>109,968</u>
			<u>\$ 280,893</u>

Residual equity transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory authority</u>	<u>Amount</u>
Vehicle inspections	General	Resolution	\$ 9,577
Payroll clearing	General	Resolution	<u>7,537</u>
			<u>\$ 17,114</u>

F. DEFINED BENEFIT PENSION PLAN

Plan description. The City of Medicine Lodge, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to (611 S. Kansas; Topeka, KS 66603-3803) or by calling 1-800-228-0366.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% for Tier 1 employees (generally active members prior to July 1, 2009) and 6% for Tier 2 (generally active members on or after July 1, 2009). The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2011 was 6.74%. The City of Medicine Lodge, Kansas employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$55,305, \$53,795, and \$42,793, respectively, equal to the required contributions for each year.

G. PUBLIC ENTITY RISK POOLS

The City is a member of the Kansas Municipal Insurance Trust (KMIT), a group funded pool for workers compensation coverage which was formed through the Kansas Municipal Group-Funded Pool Act, K.S.A. 12-1216, *et seq.* This is a public entity risk pool which operates as a common risk management and insurance program for member cities through the League of Kansas Municipalities. The City pays an annual contribution to the Kansas Municipal Insurance Trust as determined by the twelve-member Board of Trustees based upon experience modification factors, payroll audits and any other bases the Board considers appropriate. It is not possible to estimate the maximum contributions which could be required. KMIT covers claims up to \$500,000 each and aggregate excess reinsurance provides aggregate coverage up to \$3,000,000. Except for required contributions, no member can be held responsible for any claims made against any other member.

H. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2012, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.